Sparebanken Øst Boligkreditt AS

Annual Report for 2018

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Key figures

	2018	2017	2016	2015	2014
1 Return on equity	7.21	7.92	6.97	9.33	14.29
2 Net interest income as a % of average total assets (GFK)	0.91	1.10	1.00	1.44	1.56
3 Profit/loss after tax as a % of average total assets (GFK)	0.55	0.67	0.62	0.90	0.99
4 Costs as a % of income (before losses)	20.38	17.22	18.06	13.06	12.28
5 Losses as a % of net lending to customers (IB)	0.00	0.00	0.00	0.00	0.00
6 Net impaired and non-performing commitments as a % of net lending	0.07	0.03	0.02	0.00	0.01
7 Capital adequacy ratio in %	23.00	21.67	24.04	23.04	21.50
8 Tier 1 capital ratio in %	23.00	21.67	24.04	23.04	21.50
9 Dividend/Additional dividend	71.4	70.0	10.0	0.0	0.0
10 Average total assets (GFK)	13,319.6	11,325.0	10,384.0	8,937.7	8,854.0

DESCRIPTION

1 Profit/loss after tax as a % of average equity
2 Net interest income as a % of average total assets
3 Profit/loss after tax as a % of average total assets
4 Com. costs, admin. costs and other operating costs as a % of net interest, com. income and gains/losses on financial instruments
5 Losses as a % of IB net lending to customers for the period
6 Net impaired and non-performing commitments as % of net lending to customers
7 Total net primary capital as a % of the risk-weighted volume (calculation basis)
8 Tier 1 capital as a % of the risk-weighted volume (calculation basis)
9 Dividend/additional dividend in NOK
10 Average total assets based on day-to-day balance sheet figures

Board of Directors' Report

The Board of Directors hereby submits its report for the tenth year of trading.

Business

Sparebanken Øst Boligkreditt AS was founded on 14 April 2009.

Sparebanken Øst Boligkreditt AS is a wholly owned subsidiary of Sparebanken Øst and is licensed as a financing institution with the right to issue covered bonds. The company's business address is in Drammen. In its participation in the market, Sparebanken Øst Boligkreditt AS has played a vital role in securing long-term and favourable financing for the Group.

Moody's Investors Service has given the company an Aaa credit rating on all its bond issues. This reflects the lowest risk and is important for ensuring market access and obtaining good borrowing terms.

In 2012, Sparebanken Øst and Sparebanken Øst Boligkreditt AS launched "Boligkreditt.no", an online market concept which only offers loans secured against property which can be approved in the cover pool for covered bonds, without a deposit account or other banking products.

Business concept

Sparebanken Øst Boligkreditt AS exists to grant or acquire residential mortgages, commercial mortgages, loans secured against other real estate assets, and public loans, as well as to finance lending operations primarily by issuing covered bonds.

Sparebanken Øst Boligkreditt AS aims to be a profitable company run in accordance with business principles and with high ethical standards.

Report on the Annual Accounts

Income Statement

Total interest income in 2018 amounted to NOK 315.5 million (NOK 280.5 million in 2017), of which NOK 310.8 million (NOK 276.6 million in 2017) relates to interest income on lending to customers. Net interest income amounted to a total of NOK 121.3 million, a decrease compared to 2017 (NOK 125.1 million). The margins between loans to customers and deposits have narrowed during the past year because deposit rates have increased more than lending rates.

The company's operating profit before tax for 2018 amounted to NOK 94.7 million (NOK 100.2 million in 2017), while profit after tax amounted to NOK 72.9 million (NOK 76.2 million in 2017).

Total operating costs in 2018 amounted to NOK 24.3 million (NOK 20.8 million in 2017) of which NOK 19.1 million (NOK 16.1 million in 2017) relate to management fees paid to the parent bank. Sparebanken Øst Boligkreditt AS has a formal partnership with Sparebanken Øst regulated by a comprehensive management agreement which ensures competency within key fields related to the business and helps to ensure cost-effective operations. In line with the management agreement, the fee is calculated according to business principles and the portfolio being managed at the time.

IFRS 9 has been implemented as from 1 January 2018, whereby loss provisions are made on the basis of an expected loss model, regardless of whether there is any objective evidence of impairment. The Group has established a hierarchy of loss provisions broken down into three groups, where group 3 consists of commitments with a significant increase in credit risk and objective evidence of impairment, or where the default exceeds 90 days. This year's loss costs were NOK 0.3 million. This is a consequence of the changed provision level in the period. Loss provisions at the end of 2018 amounted to NOK 4.0 million.

Tax costs amounted to NOK 21.8 million (NOK 24.1 million in 2017).

In accordance with the Norwegian Accounting Act, the Board of Directors confirms that the conditions exist to provide the accounts on a going concern basis.

Balance sheet

The total balance sheet of Sparebanken Øst Boligkreditt AS amounted to NOK 14,032.1 million at the end of 2018, an increase of NOK 2.889.4 million from the previous year. Of the total balance sheet, net lending to customers amounted to NOK 13,507.1 million, representing an increase of NOK 2.908.1 million from 2017. The managed volume originates from the acquisition of the mortgage portfolio from Sparebanken Øst or lending via Boligkreditt.no. Other assets largely comprise deposits in the parent bank.

Bond debt at the end of the year amounted to NOK 12,210.7 million, equivalent to an increase of NOK 2.347.8 million from 2017.

At the end of the year, NOK 447.1 million was drawn from an approved credit facility with a limit of NOK 2,000 million, which was made available from Sparebanken Øst.

Net cash flow was positive in 2018 at NOK 9.8 million. The growth in lending is primarily funded by issuing bond loans with preferential rights (covered bonds).

Share capital amounts to NOK 373.1 million, distributed on 10.66 million shares, each with a nominal value of NOK 35.

Risk and corporate governance

Sparebanken Øst Boligkreditt AS seeks to maintain a low risk profile in line with regulatory requirements, which also ensures that the company has confidence in the market for covered bonds. The business requires a certain degree of risk-taking, but Sparebanken Øst Boligkreditt AS seeks to maintain a conscious and measured approach to this. This applies particularly to credit risk, interest rate risk, liquidity risk, and operational risk (including ICT risk).

Sparebanken Øst Boligkreditt AS aims to achieve its economic objectives over time. These objectives include a return on equity equivalent to, as a minimum, the risk-free interest rate over time, capital adequacy at the highest level, either as stipulated by regulations or the company's own evaluations, and liquidity management that reduces the risk related to future liquidity requirements.

See "Corporate governance" in Sparebanken Øst's annual report for a description of the principles for corporate governance pursuant to Section 3-3b of the Norwegian Accounting Act This also covers Sparebanken Øst Boligkreditt AS

Overall risk management

The Board and management have ultimate responsibility for risk management and internal control. The Board adopts the overall risk strategy and approves principles for monitoring, control, and risk thresholds. The Board regularly evaluates strategies and guidelines pertaining to risk management and control.

Sparebanken Øst Boligkreditt AS monitors risk trends by way of systematic quarterly measurements and risk reports for the most crucial areas, including the actual level of risk compared to established limits.

The general manager is responsible for executing and implementing adequate internal controls and risk management. The company hires in resources from the parent bank's risk management and compliance department, which prepares quarterly risk reports using the existing portfolio as the basis for making spot-checks against credit risk and regulatory provisions. Additionally, checks and reports are carried out for each portfolio transfer from the parent bank to Sparebanken Øst Boligkreditt AS. A quarterly Board and Management Report providing a picture of current risks and trends will be submitted to the Board. The company has established guidelines and a framework for the management and control of various types of risk. Foreign exchange, interest rate, and liquidity risks are managed in accordance with Acts and Regulations for covered bonds, and the framework laid down by the company's Board. The general manager holds quarterly meetings with the parent bank to review the current status, trends, and prospects on the basis of the financial report that has been compiled. Separate minutes are prepared following these quarterly meetings. A financial report together with minutes is submitted to the Board on a quarterly basis. The Board deems the overall financial risk to be low.

A management agreement (Transfer and Servicing Agreement – TSA) has been entered into with Sparebanken Øst covering administration, IT operations, and the production of various banking services, as well as finance, clearing, and accounting services. At the end of 2018, the company had hired a total of 1.4 FTEs, including a general manager, to assist with such assignments as follow-up and control related to outsourced services. The structure and systems associated with this are constantly evolving. The general manager submits an annual report on the implementation of internal control and risk management. The Board considers the operational risk to be low.

In connection with the rating of bond issues from Sparebanken Øst Boligkreditt AS, Sparebanken Øst has issued a guarantee relating to all liabilities with regard to covered bonds in the mortgage company. Sparebanken Øst Boligkreditt AS also has drawing rights in Sparebanken Øst.

The assets primarily consist of lending secured against real estate within legal requirements with regard to quality and loan-to-value ratio. The loan-to-value ratio is calculated in relation to the reasonable property value determined in accordance with applicable legislation. The general assessment criteria related to the approval and maintenance of the loan follow the guidelines established by Sparebanken Øst. All collateral is established by way of a value assessment conducted by a competent and independent third party. The Board considers that the quality of the lending portfolio is good. The over-collateralisation of the cover pool was 13% at year-end.

The Board is of the opinion that overall risk exposure in Sparebanken Øst Boligkreditt AS is very low.

Net primary capital amounted to NOK 1,262.6 million at year-end. This corresponds to capital adequacy of 23.00% of which tier 1 capital adequacy amounts to 23.00%. The risk-weighted balance sheet at the end of 2018 was NOK 5,490.7 million. The company uses the standard approach for Basel 2 in its capital adequacy calculations. The Board deems the company's capital adequacy to be satisfactory in relation to the company's overall risk level, and the capital situation is helping to position the company for further growth.

Allocation of profit

The annual profit for 2018 amounted to NOK 72.9 million (NOK 76.2 million in 2017). The Board of Directors proposes that the profit for the year be transferred in its entirety to other equity.

Strategy

Through its collaboration with the parent bank, Sparebanken Øst Boligkreditt AS will help the Group to obtain competitive borrowing in a niche market which the bank cannot directly participate in itself. The activities of Sparebanken Øst Boligkreditt AS are, therefore, designed to limit the Group's liquidity risk, and thereby help the Group to achieve its long-term strategic objectives. Through its activities, Sparebanken Øst Boligkreditt AS shall help Sparebanken Øst to offer competitively priced mortgages. New mortgages are sold through the bank's distribution channels and in accordance with the bank's current guidelines and regulations. The bank is responsible for customer relations, marketing, product development, etc. The company's growth depends on the parent bank's borrowing requirements and capital structure.

The target group for the covered bonds issued is mainly national players, but issues in foreign currencies are assessed on an ongoing basis.

Employees and the working environment

Sparebanken Øst Boligkreditt AS employed a total of 1.4 FTEs at year-end. The general manager occupies a 40% position, the accounting department contributes resources equivalent to a 50% position and the department for risk management and compliance contributes the equivalent of a 50% position. The working environment in the company is deemed to be good. There are five members of the Board of Directors.

External environment, social responsibility, and research and development

The company's business activities do not involve any environmentally-harmful pollution or emissions. Please refer to the parent bank's annual report for a social responsibility report in accordance with Section 3-3c of the Norwegian Accounting Act. This is available on the bank's and company's website at www.oest.no. The company has no ongoing research and development activities.

Equality

The Sparebanken Øst Group strives to maintain equality when hiring and in its employee and management training, and is conscious of its role in this regard. The Board of Directors of Sparebanken Øst Boligkreditt AS currently comprises three men and two women.

The market

Credit spreads in the market for Norwegian covered bonds widened slightly in 2018. Sparebanken Øst Boligkreditt AS today pays approximately 46 basis points (hundredths of a percentage point) above the 3-month NIBOR rate for issuing such bonds with terms to maturity of five years. Access to capital in the market for covered bonds has been good, in particular up and including Q3. The market was rather slower in the last quarter of the year, so that the credit spread ended 2018 approximately 4 basis points higher than at the end of 2017.

Sparebanken Øst Boligkreditt AS issued two new covered bonds in 2018. A loan for a nominal amount of NOK 2,500 million maturing in 2023 and a loan for a nominal amount of NOK 400 million maturing in 2030.

The cover pool contains secured mortgage loans concerning every county in the country. The majority of the homes are located in the central part of Eastern Norway, and loans from Buskerud, Oslo and Akershus account for 75.6% of the total. The loans in the cover pool have first priority mortgage charges on Norwegian residential properties.

Future prospects

In 2018, Sparebanken Øst Boligkreditt AS took a market approach based on the strategy of the parent bank, and a general adjustment to market conditions. The growth in 2018 was adjusted to match the Group's need for funding. Access to funding via covered bonds was good in 2018. The mortgage credit company is expected to continue to grow in coming years and, given normal market conditions, covered bonds will cover part of the Group's funding needs with long terms to maturity. Issues of covered bonds have helped Sparebanken Øst to achieve a robust liquidity position.
After positive development in 2017, global economic growth slowed down in 2018. Both interest rates and price rises remain low in Norway's most important trading partner countries, but the expected reduction of the expansionary monetary policy and the prospect of interest rate increases by central banks in Europe mean that the development is still subject to uncertainty. Brexit and the trade war with the USA made the headlines throughout the year and may have contributed to falling prices on global stock exchanges at the end of 2018. There are nonetheless still good opportunities for the global economy to continue to grow, even if the growth rate is rather lower than previously assumed.

Growth in Norway's mainland economy ended at 2.2% in 2018, slightly lower than expected. This is partly due to a cold winter, dry summer and lower oil prices. Even though growth slowed during the year, production, consumption, exports and employment all increased. Registered unemployment decreased further. After falling in 2017, house prices increased moderately in 2018.

Sparebanken Øst Boligkreditt AS has good control of its costs, with no significant costs expected in addition to costs arising naturally as a consequence of an increased portfolio.

The company expects moderate future mortgage growth and intends to contribute to continued lending growth in the Group. The company has good control over its costs, with no considerable costs expected in addition to costs which would arise naturally as a result of an increased portfolio. Consequently, the Board expects the company to achieve the adopted objective of a satisfactory return on equity.

The Board is also of the opinion that the company's capital base is sufficient to provide room for manoeuvre in the future. We expect the market for covered bonds with good ratings to meet the company's need for new funding and the refinancing of existing debenture loans.

Drammen, 12 February 2019

Board of Directors of Sparebanken Øst Boligkreditt AS

Kjell Engen *Chairman of the Board*	Lars-Runar Groven *Deputy Chairman*	Leif Ove Sørby *Board member*
Siren Coward *Board member*	Anne Grete Nesset *Board member*	Vegard Kvamme *General manager*

Income statement

(Figures in NOK thousands)	Notes	2018	2017
Interest income from assets valued at amortised cost		313,206	278,425
Interest income from assets valued at fair value		2,268	2,122
Interest costs		194,147	155,420
Net interest income	3.4	**121,327**	**125,127**
Commission income and income from banking services	3	19	14
Commission costs and costs for banking services	3	19,130	16,121
Net value adjustments and gains/losses on financial instruments	15	2,035	-4,087
Administration costs	3.6	1,165	898
Other operating costs	3,5,7,8	4,023	3,824
PROFIT BEFORE LOSSES		**94,993**	**100,211**
Losses on loans and unused credit facilities	9	335	0
PROFIT BEFORE TAX COSTS		**94,658**	**100,211**
Tax costs	10	21,755	24,055
PROFIT FOR THE YEAR		**72,903**	**76,156**

Comprehensive income

(Figures in NOK thousands)	Notes	2018	2017
PROFIT FOR THE YEAR		**72,903**	**76,156**
Other operating income and costs in comprehensive income		0	0
COMPREHENSIVE INCOME		**72,903**	**76,156**

Balance sheet

(Figures in NOK thousands)	Notes	31.12.18	31.12.17
Loans to and receivables from financial institutions	3,20,21,22	230,973	221,125
Loans to and receivables from customers	9,11,20,21,22	13,507,138	10,599,011
Certificates, bonds, etc. at fair value	20,21,22	150,713	151,223
Deferred tax asset	10	493	156
Financial derivatives	12,20,21,22,26	142,015	169,929
Other assets	3,13,21,22	743	1,218
TOTAL ASSETS		**14,032,075**	**11,142,662**
Liabilities to financial institutions	3,14,16,20,21,22	447,221	283,708
Securities issued	3,16,18,20,21,22	12,210,680	9,862,850
Financial derivatives	12,20,21,22,26	14,583	6,111
Tax payable	10	21,238	24,185
Other liabilities	3,17,21,22	75,249	1,523
Accruals and deferred income		125	21
Provisions for accrued costs and liabilities		70	0
Total liabilities		**12,769,166**	**10,178,398**
Paid-up equity	23	949,990	649,990
Retained earnings		312,919	314,274
Total equity	19,23	**1,262,909**	**964,264**
TOTAL LIABILITIES AND EQUITY		**14,032,075**	**11,142,662**

Drammen, 12 February 2019

Kjell Engen *Chairman of the Board*	Lars-Runar Groven *Deputy Chairman*	Leif Ove Sørby *Board member*
Siren Coward *Board member*	Anne Grete Nesset *Board member*	Vegard Kvamme *General manager*

Cash Flow Statement

(figures in NOK thousands)	Notes		2018	2017
Operating activities				
Profit/loss before tax costs			94,658	100,211
Adjusted for:				
Change in net accrued interest income and interest costs			3,065	-5,525
Change in value of bonds at fair value			550	-360
Net receipts/payments of loans to customers			-2,909,605	-1,544,513
Net receipts/disbursement of borrowing from financial institutions			163,469	19,439
Change in other assets			475	12,678
Change in other liabilities			73,831	322
Change in premium/discount on securities issued			1,026	1,526
Non-cash items included in profit before tax costs			334	0
Net losses/gains from financing activities			1,485	4,447
Taxes paid for the period			-24,185	-21,800
Net cash flow from operating activities		**A**	**-2,594,897**	**-1,433,575**
Financing activities				
Payments on repayment of securities			-524,377	-1,001,575
Proceeds on issuance of securities			2,900,522	2,498,490
Proceeds from capital increase			300,000	0
Payment of additional dividends			-71,400	-70,000
Net cash flow from financing activities		**B**	**2,604,745**	**1,426,915**
Net change in cash and cash equivalents		**A+B**	9,848	-6,660
Cash and cash equivalents as at 01.01	3		221,125	227,785
Holdings of cash and cash equivalents as at 31.12			**230,973**	**221,125**

Liquid assets consist exclusively of bank deposits. Unused drawing rights at 31.12.2018 were NOK 1,552.9 million and at 31.12.2017 were NOK 1,716.7 million.

Change in equity

(figures in NOK thousands)

2018	Total equity	Share capital	Premium reserve	Other equity
Equity at 31.12.2017	964,264	319,800	330,190	314,274
Implementation effect of IFRS 9	-2,858	0	0	-2,858
Restated equity as at 01.01.18	**961,406**	**319,800**	**330,190**	**311,416**
Profit for the year	72,903	0	0	72,903
Other operating income and costs in comprehensive income	0	0	0	0
Comprehensive income	72,903	0	0	72,903
Capital increase 13.12.18	300,000	53,300	246,700	0
Additional dividends	-71,400	0	0	-71,400
Equity at 31.12.18	**1,262,909**	**373,100**	**576,890**	**312,919**

On the basis of the profit for 2017, additional dividend of NOK 71.4 million was paid out, equivalent to NOK 6.70 per share. The proposed dividend based on the profit for 2018 is NOK 0 million.

2017	Total equity	Share capital	Premium reserve	Other equity
Equity at 31.12.2016	958,108	319,800	330,190	308,118
Profit for the year	76,156	0	0	76,156
Other operating income and costs in comprehensive income	0	0	0	0
Comprehensive income	76,156	0	0	76,156
Additional dividends	-70,000	0	0	-70,000
Equity at 31.12.2017	**964,264**	**319,800**	**330,190**	**314,274**

On the basis of the profit for 2016, additional dividend of NOK 70 million was paid out, equivalent to NOK 6.57 per share. The proposed dividend based on the profit for 2017 is NOK 0 million.

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NOTE 1 GENERAL INFORMATION

Sparebanken Øst Boligkreditt AS has its headquarters in Drammen and is a wholly owned subsidiary of Sparebanken Øst. 2018 is the company's tenth year of trading. The company was established on 14 April 2009 and registered in the Norwegian Register of Business Enterprises on 27 April 2009. Its business address is Bragernes Torg 2, N-3017 Drammen, Norway.

The object of the company is to acquire mortgage loans from Sparebanken Øst and issue covered bonds in the money market.

The annual accounts for 2018 were approved by the Board of Directors of Sparebanken Øst Boligkreditt AS on 12 February 2019.

The company is included in the consolidated accounts of Sparebanken Øst, business address Stasjonsgate 14, NO-3300 Hokksund, Norway.

All amounts in the notes are stated in NOK thousand unless otherwise stated.

NOTE 2 ACCOUNTING POLICIES

1. GENERAL

The accounts for Sparebanken Øst Boligkreditt AS for 2018 have been prepared in accordance with IFRS standards as approved by the EU, and IFRIC interpretations.

The financial statements are based on historical cost principles, apart from financial derivatives and investments in bonds, which are measured at fair value. Where the company uses hedge accounting, the value of the hedging object is adjusted for the change in value related to the hedged risk.

Interest-bearing balance sheet items include earned/accrued interest.

2. AMENDMENTS TO ACCOUNTING POLICIES

The accounting policies applied are generally unchanged from the policies applied to the 2017 annual financial statements, with the exception of the changes in IFRS and interpretations that were implemented in 2018. All relevant amendments to IFRS and interpretations effective for the accounts for 2018, and the effect these have had on the annual financial statements, are listed below.

- ***IFRS 9 Financial instruments:*** IFRS 9 has replaced IAS 39 Financial Instruments: Recognition and Measurement and entailed changes related to classification and measurement, hedge accounting and write-downs. The changes in presentation and measurement, as well as the implementation effects on the introduction of IFRS 9, are described below. Differences that arose on the implementation are recognised directly to equity as of 1 January 2018 and presented in conclusion. For a review of updated accounting policies, reference is made to item 5. Financial instruments and item 12. Management assessments, use of estimates and assumptions. Comparative figures and the Notes for 2017 have not been adjusted as a consequence of the changes and are therefore not directly comparable in areas for which IFRS 9 has entailed changes.

  Classification and measurement
  IFRS 9 requires all financial assets, except equity instruments and derivatives, to be classified and measured on the basis of a combination of the company's model for managing the assets ("business model" test) and the characteristics of the instruments' cash flow ("contractual cash flow" test). The measurement categories in IAS 39 have been replaced with the following categories: fair value with value changes through profit or loss, fair value with value changes through other income and costs (with and without reclassification) and amortised cost. Instruments that must initially be measured at amortised cost or fair value with value changes through other income and costs can be designated for measurement at fair value with value changes through profit or loss if this eliminates or significantly reduces an accounting discrepancy. The transiton to IFRS 9 will not result in any changes to the classification or measurement of derivatives. The requirements concerning measurement of financial liabilities under IFRS 9 are largely the same as those under IAS 39, except when it comes to the treatment of gains or losses attributed to own credit risk related to liabilities that are measured at fair value with value changes through profit or loss.

  The implementation of IFRS 9 did not result in any change in how the company measures financial instruments in the company's balance sheet or through profit or loss:
  - For the company's loans to and receivables from customers, as well as credit institutions, the conclusion is that the business model entails "hold to receive contractual cash flows" and that the measurement method of amortised cost will be continued under IFRS 9.

- Concerning "certificates and bonds etc. at fair value" in the accounts, the measurement method of fair value through profit or loss is continued under IFRS 9.
- For the company's financial obligations, i.e. "liabilities created by the issuance of securities" and "liabilities to credit institutions", the measurement category of amortised cost is continued under IFRS 9.

Hedge accounting
IFRS 9 allows the application of hedge accounting to be based more on the business's risk management than is permitted under IAS 39.

The company currently uses hedge accounting to hedge interest rate and currency risk on fixed-rate borrowing and currency borrowing. The implementation of IFRS 9 does not entail any changes in the company's application of existing hedge accounting and under IFRS 9 the company has continued to apply hedge accounting as under IAS 39, by hedging the base interest rate on fixed-rate borrowing and the exchange rates for currency borrowing.

Write-downs
IFRS 9 changes the rules for impairment of financial assets that are debt instruments and which are measured at amortised cost or fair value, with value changes through other income or costs (other comprehensive income). In addition, loan pledges and unused credit facilities are also included. This entailed an implementation effect as at 01.01.2018 on the transition to IFRS 9 and a change in how the company measures loss provisions. The new rules in IFRS 9 require provisions to be made for expected future losses, regardless of the extent to which such objective evidence of impairment exists on the balance sheet date. The rules are based on the loans being placed in one of three groups for write-down purposes. The accounting policies concerning expected losses are discussed in more detail under 5.4.6. The implementation of IFRS 9 resulted in an increase in loss provisions of NOK 3.7 million as at 1 January 2018.

The table below shows changes in measurement category from IAS 39 to IFRS 9 as at 01.01.2018:

Accounting line (figures in NOK millions)	**Measurement category under IAS 39**	**Measurement category under IFRS 9**	**Recognised under IAS 39**	**Recognised under IFRS 9**
Loans to and receivables from customers	Amortised cost	Amortised cost	10,599.0	10,595.3

The table below shows loss provisions in the different groups with the introduction of IFRS 9 from 01.01.2018:

(figures in NOK million)	**Step 1**	**Step 2**	**Step 3**	**Total**
Loans to and receivables from customers	3,4	0.3	0.0	3.7

The table below shows the implementation effects on equity of the introduction of IFRS 9 as at 01.01.2018:

Changes in loss provisions (figures in NOK millions)	**Equity effect**
Capitalised amount under IAS 39 at 31.12.2017	0.0
Effect of introducing the expected loss model on loans to and receivables from customers	-3.7
Tax effect based on the item above	0.9
Opening balance against equity under IFRS 9 as at 01.01.2018	**-2.9**
Total change in equity on the introduction of IFRS 9 on 01.01.2018	**-2.9**

- ***IFRS 15 Revenue from contracts with customers*** IFRS 15 will replace all existing standards and interpretations for the recognition of income. The core principle of IFRS 15 is that income is recognised so as to reflect the transfer of agreed goods or services to customers, and at an amount that reflects the amount of consideration to which an entity expects to be entitled in exchange for transferring promised goods or services to a customer. The standard includes a model for the recognition and measurement of the sale of non-financial assets (excluding the sale of properties, plant and equipment) and applies to all income contracts. The rules in IFRS 9 must be used for contracts that are recognised in line with the rules in IFRS 9. The changes have not resulted in any changes in the company's revenue recognition or changes in the information in the Notes to the annual report.

3. CURRENCY

The accounts are presented in Norwegian kroner (NOK), which is also the company's functional currency.

Transactions in foreign currency are translated to the functional currency (NOK) at the exchange rates on the transaction date. Foreign currency items are translated at the official average exchange rates on the balance sheet date. Currency losses and gains attributable to different rates of exchange on the transaction and settlement dates, and translation differences on foreign currency items which cannot be assessed, are charged to income.

4. INCOME

4.1 INTEREST INCOME AND COSTS

Interest income and costs are recognised in the income statement using the effective interest method. The effective interest rate is determined by discounting contractual cash flows within the expected term.

If a financial asset or a group of similar assets are depreciated as a result of value impairment, interest income is recognised by using the interest rate at which future cash flows are discounted to calculate such impairment.

Recognition of interest as income according to the effective interest method is employed for balance sheet items measured at amortised cost, and balance sheet items measured at fair value through profit or loss.

4.2 COMMISSION INCOME AND COSTS

Commission income and costs are recognised in the income statement at the time the service is carried out. Fees related to interest-bearing instruments are not recognised in the income statement as commission, but are included in the calculation of the effective interest rate and recognised in the income statement accordingly.

5 FINANCIAL INSTRUMENTS

5.1 RECOGNITION AND DERECOGNITION

Financial assets and liabilities are recognised when the company becomes a party to the instrument's contractual conditions.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the rights to receive the cash flow are transferred. Financial liabilities are derecognised when the liability ends; this is when the liability stated in the contract is fulfilled, cancelled or expires.

5.2 CLASSIFICATION

The company's financial instruments subject to IFRS 9 are classified on initial recognition in one of the following categories:

Financial assets:

- Amortised cost
- Fair value with value changes through profit or loss

Financial liabilities:

- Amortised cost
- Fair value with value changes through profit or loss

5.3 MEASUREMENT

5.3.1 Initial recognition of financial instruments

Financial instruments measured at fair value through profit or loss are measured at fair value on the agreement date upon initial recognition. Fair value will normally be the transaction price. Financial assets and liabilities which are not classified in this category are measured at fair value with the addition/deduction of directly attributable transaction costs upon initial recognition.

5.3.2 Subsequent measurement

Measurement at fair value

In principle, observable market rates must be the basis on for a financial instrument's fair value. Where observable market rates do not exist and the fair value cannot be derived directly or indirectly from observable inputs in the market, other valuation methods are used. These are methods that can involve using discretionary evaluations to some degree. Such discretionary evaluations may be liquidity risk, credit risk and volatility. Changes in the attitude toward these factors may affect the determination of the fair value of a financial instrument. All changes in fair value are recognised directly in the income statement.

Measurement at amortised cost
Financial instruments that are not measured at fair value are valued at amortised cost. Income/costs are calculated by the effective interest rate method, whereby the effective interest rate is determined by discounting contractual cash flows within the expected term. Amortised cost is the present value of cash flows discounted by the effective interest rate.

5.3.3 Hedge accounting

The company uses fair value hedging of fixed-rate borrowing and foreign currency borrowing. For fair value hedging the hedged instrument is recognised at fair value and the value of the hedging object is adjusted in accordance with the change in value linked to the hedged risk. Hedge accounting is described in further detail under 5.4.4.

5.4 MORE INFORMATION ABOUT FINANCIAL INSTRUMENTS

5.4.1 Loans and receivables

The company's loans and receivables are measured at amortised cost At initial recognition lending is assessed at fair value and direct transaction costs are added. Arrangement fees are capitalised and recognised as income over the expected maturity of the loan. Upon subsequent measurement loans are measured at amortised cost using the effective interest rate approach. Interest income on financial instruments classified as loans and receivables is included in "Interest income from assets valued at amortised cost" in the income statement. The period's loss provisions on lending are recognised under "Losses on loans and unused credit facilities". Interest income on loans and receivables with loss provisions in step 3 is calculated according to the effective interest rate method based on the amortised value of the loan and is included in "Interest income from assets valued at amortised cost".

Model-calculated expected losses
Expected losses are calculated regardless of whether there is objective evidence of impairment on the balance sheet date. Loans and receivables are presented in the balance sheet on a net basis after loss provisions. Measurement of expected losses is described in further detail under 5.4.6.

Impaired and non-performing commitments
Non-performing loans are defined as loans that have defaulted on payment exceeding 90 days. Loans and other commitments which are not non-performing, but where the customer's economic situation makes it likely that the company will incur a loss, are classified as impaired commitments.

Individual write-downs on lending
Loans are written down for credit losses on a case by case basis (individually) if there is objective evidence of impairment. Objective evidence is considered to exist in cases of major financial problems at the debtor, payment default or other material breach of contract, granting of deferral of payments or new credit to pay forward, agreed changes in interest rates or other terms and conditions as a result of problems at the debtor, debt negotiation with the debtor, other financial restructuring or bankruptcy proceedings.

Estimates of any credit loss are based on the size of expected future cash flows from sale of collateral etc., when the cash flows are expected to be paid and the discount rate. The size of the loss is a direct function of the difference between the book value and the present value of the discounted future cash flows, discounted at the loan's effective interest rate.

Declaring losses
The realisation of losses does not occur until debt settlement or the bankruptcy of the debtor has been affirmed, execution proceedings have not been successful, or there is a final and enforceable judgement, or in instances in which the company has renounced the loan or parts of it, or in other instances when it is highly likely that losses are final. Declared losses that are covered by previous individual write-downs are carried to provisions. Declared losses that have not previously been subject to individual write-down, as well as over- or under-coverage in relation to previous write-downs, are recognised in the income statement.

5.4.2 Certificates and bonds

The company's holdings of certificates and bonds constitute the company's liquidity portfolio, which is managed and measured at fair value. The company's holdings of certificates and bonds are classified at fair value with value changes through profit and loss. The accrued interest from the contractual interest payment on interest-bearing instruments measured at fair value is presented on a separate line of the income statement. Value adjustments and realised gains/loses are recognised as "Net value adjustments and profit/loss on financial instruments".

5.4.3 Financial derivatives

Financial derivatives are contracts that are entered into in order to neutralise an already relevant interest and/or foreign exchange risk assumed by the company. Derivatives include foreign currency and interest rate instruments. Financial derivatives are recognised at fair value with value adjustment through profit or loss. The derivative is recognised as an asset if the fair value is positive and as a liability if the fair value is negative. Accrued interest from financial derivatives, where hedge accounting is applied, is presented on the same line in the income statement as interest on the hedging object. Value adjustments and realised gains/loses on financial derivatives are recognised in the income statement under "Net value adjustments and gains/losses on financial instruments".

5.4.4 Hedge accounting:

The company makes use of financial derivatives to reduce interest and/or currency risks.

The company uses fair value hedging of fixed-rate borrowing and currency borrowing. In a fair value hedge the company seeks to hedge against exposure to changes in the fair value of recognised assets or liabilities. Bond debt at fixed interest rates constitutes an interest risk. Bond debt in foreign currency constitutes both an interest and a currency risk. Hedge accounting is applied to financial derivatives used to hedge the fair value of recognised liabilities where the criteria are met. Changes in the fair value of financial derivatives classified as and meeting the requirements of fair value hedging are recognised in the income statement together with any change in the fair value of the hedged liability which can be ascribed to the hedged risk. Interest rate swaps and combined interest rate and currency swaps (basis swaps) are the hedging instruments used by the company. The value adjustment of hedging instruments and items is posted to "Net value adjustments and gains/losses on financial instruments". Any ineffective portion of the hedging is recognised. If the hedging relationship is interrupted or adequate hedging efficiency cannot be verified, the value adjustment linked to the hedging object is amortised over the remaining maturity.

It must be possible to reliably measure the effectiveness of hedging. When the hedging is established, the relationship between the hedging object and hedging instrument is formally documented, including the risk that is hedged, the hedging objective and strategy, and the method that will be used to assess the effectiveness of hedging. The hedging is assessed and documented quarterly, including the effectiveness of hedging. The company predominantly uses one-to-one hedging, which means, for example, that the nominal amount and principal, terms, repricing dates, dates of receipt and payment of interest and principal, as well as the basis for measuring interest rates, are the same for the hedging instrument and the hedging object.

5.4.5 Borrowing and other financial liabilities:

The company measures financial liabilities, other than derivatives, at their amortised cost. Financial liabilities are measured at amortised cost where the differences between the amount received less transaction costs and the redemption value are accrued over the loan term, using the effective interest rate method. Holdings of own bonds are posted as reductions of liabilities. Interest costs and amortisation effects on instruments are posted to "Interest costs and similar costs" in the income statement. In the case of buybacks, the difference between the book value and the remuneration paid is recognised in the income statement under "Net value adjustments and gains/losses on financial instruments".

5.4.6 Measurement of expected losses

Expected losses are calculated on financial assets which are debt instruments measured at amortised cost or at fair value with changes through comprehensive income. Expected losses are calculated and loss provisions posted regardless of whether there is objective evidence of impairment on the balance sheet date. The company calculates expected losses on total commitments comprising loans and unused credit facilities. The companies divides commitments into three groups on calculating the expected losses.

Step 1: Commitments that do not have a substantial increase in credit risk, after initial recognition, measured on the basis of the change in risk class, are included in group 1. For commitments in group 1, an expected 12-month loss is calculated on the basis of the commitment's exposure.

Step 2: Commitments with a substantial increase in credit risk, after initial recognition, measured on the basis of the change in risk class, including commitments with default exceeding 30 days, are included in group 2. For commitments in group 2, a lifetime expected loss is calculated on the basis of the commitment's exposure and expected duration.

Step 3: Commitments with a significant increase in credit risk, where there is objective evidence of impairment, or where the default exceeds 90 days, are included in group 3. The provision for this group consists of both individually assessed write-downs and model-calculated expected losses. For commitments for which there is no individual impairment assessment, a lifetime expected loss is calculated on the basis of the commitment's exposure, the segment's parameter for expected losses, and expected duration.

Principle for the calculation of expected losses: On the basis of the company's risk classification system, each risk class is subject to a probability of default in order to calculate the expected loss. The company's commitments have virtually the same risk profile and an expected level of loss given default is determined. An expected commitment exposure is also determined. For repayment loans, the basis is an expected repayment plan. For credit lines, the basis is an expected exposure at default. The expected loss is calculated by multiplying the probability of default (PD) * expected loss given default (LGD) * by exposure at default (EAD). On calculating the expected loss, a probability-weighted calculation is made of the expected macroeconomic development, based on macroeconomic prospects and observed credit losses.

6 INCOME TAX

Income tax for the year in the income statement comprises the tax payable for the financial year, any over/under allocated tax payable from previous years, and deferred tax recognised in the income statement.
Deferred tax commitments/deferred tax portions are calculated on the basis of provisional differences. The provisional difference is the difference between the book value and the tax value of assets and liabilities. Deferred tax assets are calculated on the tax effects of losses carried forward.

Deferred tax assets are recognised as assets in the balance sheet to the extent that it is expected that the company will have sufficient taxable profit in future periods so as to utilise the deferred tax asset. Deferred tax assets and deferred tax liabilities are calculated using the tax rate expected to apply to temporary differences when they are reversed, and are offset to the degree permitted. Deferred tax assets and deferred tax liabilities are not discounted.

Tax payable is entered directly on the balance sheet to the extent that the tax items relate to equity transactions.

7 CONTINGENT EVENTS

Contingent liabilities are not recognised in the annual financial statements. Information is provided on major contingent liabilities with the exception of contingent liabilities where there is great probability that the liability is low.

Contingent assets are recognised if they are likely to occur.

8 DIVIDEND

Dividend per share is recognised as equity in the period up until approved by the company's General Meeting.

9 CASH FLOW STATEMENT

Cash flow statements show the cash flows grouped according to types and employment area. Cash and cash equivalents include cash, receivables at central banks, and lending to and receivables from financial institutions relating to direct investments.

10 EVENTS AFTER THE BALANCE SHEET DATE

New information after the balance sheet date concerning the company's financial position as at the balance sheet date will be included in the basis for assessing the accounting estimates in the accounts and will thus be taken into consideration in the annual financial statements. Events after the balance sheet date which do not affect the company's financial position on the balance sheet date, but which will affect the company's financial position in the future, are reported if such information is material.

11 MANAGEMENT ASSESSMENTS, USE OF ESTIMATES AND ASSUMPTIONS

Due to the uncertainty inherent in business activities, accounting items cannot be measured accurately; rather they must be evaluated and estimated. The management has used its judgement in applying accounting policies, and has used assumptions and expectations regarding future events that are considered likely. Estimates and assessments are regularly evaluated and are based on the most recent reliable data available, as well as experience from similar assessments. There will always be an inherent uncertainty related to accounting items that cannot be measured accurately, and the management's assessments and best estimates may differ significantly from actual outcomes.

Assessments, estimates and assumptions that are deemed to be the most significant for the accounts are discussed below.

11.1 MODEL-CALCULATED EXPECTED LOSSES

The company has established principles and models to calculate expected losses on commitments, irrespective of whether there is objective evidence of impairment on the balance sheet date. The company calculates expected losses on total commitments comprising loans and unused credit facilities. Expected losses are calculated per commitment, where the most significant elements of the calculation are described below. Reference is made to Note 9 for model-calculated loss costs and loss provisions per group, and to Note 21 for commitment totals per risk class and distribution per group.

Original risk class: The risk class to which a commitment is assigned on processing the loan application is the basis for measuring substantial increases in credit risk.

Probability of default: The company has a risk classification based on 11 categories from A to K. For each risk class, the expected probability of default in the first 12 months is determined, in order to calculate the expected loss in step 1. The expected probability of default during the term of the commitment, to calculate the expected loss in step 2, is derived from the probability of default in the first 12 months. For risk classes J and K, the probability of default is set at 100% when there is objective evidence of default and/or loss.

Expected loss given default: The loss given default must reflect the degree of uncovered losses given the cash flow from the customer and any realisation of the collateral for non-performing loans. The loss given default is assessed collectively for the loan portfolio. On assessing the realisation of collateral, considerations are made which reflect the expectations in the short and medium term.

Exposure at default: For repayment loans, the expected repayment profile is determined on the basis of the analysis performed of the average maturity of the Group's mortgage portfolio. For commitments subject to a credit line, it is determined how much of the credit limit is expected to be drawn on at the time of default.

Rules concerning a significant increase in credit risk: The rules concerning a significant increase in credit risk are based on the risk class and changes in the risk classification. The rules are presented as a matrix table, based on the original risk class and current risk class. As a general principle, an increase by two risk classes entails a substantial increase in credit risk and transfer from step 1 to step 2. For commitments with the lowest risk classes, an increase to at least risk class E is required before transfer to step 2. Commitments with payment reduction are assigned to step 2. Commitments in risk classes J and K are assigned to step 3.

Probability weighting of macroeconomic scenarios: Estimated expected losses are weighted by the factors and probability of three scenarios: an optimistic, an expected and a pessimistic scenario. Factors and the probability of the factors are based on internal assessments that include the expected development in key macroeconomic indicators, including housing prices, interest rate levels and unemployment, as well as observed credit losses.

11.2 INDIVIDUAL WRITE-DOWNS

Loans are written down for a reduction in value on an individual basis provided there is objective evidence that such a reduction in value has occurred. Objective evidence is considered to exist in cases of major financial problems faced by the debtor, payment default or other material breach of contract, the granting of deferral of payments or new credit to pay due amounts, agreed changes in interest rates or other terms and conditions as a consequence of problems faced by the debtor, debt negotiation with the debtor, other financial restructuring or bankruptcy proceedings. Estimation of any reduction in value/loss takes place on the basis of the size of the expected future cash flows from the sale of collateral and the like, when cash flows are expected to be paid, as well as the size of the discount rate. The size of the loss is directly proportional to the difference between the book value and the present value of discounted future cash flows. The primary uncertainty of estimates as to the size of the reduction in value/loss lies in the assessments of the cash flows' size and when they are expected to be received. Individual write-downs are included in expected losses, step 3. Reference is made to Note 9 concerning losses on lending.

12 FUTURE AMENDMENTS TO ACCOUNTING POLICIES

Approved standards and interpretations where the date they become effective is in the future are listed below, except for those that are deemed clearly not to be relevant.

- *IAS 16 replaces the existing IFRS standard for leases,* IAS 17 Leases. IFRS 16 specifies principles for recognition, measurement, presentation and information about leases for both parties to a lease, i.e. the customer (lessee) and the provider (lessor). The new standard requires the lessor to recognise assets and liabilities for most leases, which is a significant change from the current principles. As far as the lessee is concerned, IFRS 16 largely continues the existing principles in IAS 17. In line with these, a lessee must continue to classify its leases as operational or financial leases and recognise these two types of leases differently. The standard will have accounting effect as from 1 January 2019. The company's assessment is that the standard will not entail changes in the company's income statement, balance sheet and/or information provided.

NOTE 3 ACCOUNT WITH THE PARENT BANK

Sparebanken Øst Boligkreditt AS is a wholly owned subsidiary of Sparebanken Øst and is defined as a related party. The company has entered into an agreement with Sparebanken Øst on management, hire of the general manager, controls and compliance, accounting analysis and reporting and purchase of home mortgages. Transactions between the companies are conducted in accordance with normal commercial terms and principles.

Profit/loss	**2018**	**2017**
Interest income, deposits in parent bank	2,414	1,858
Interest costs, loans from parent bank	11,154	7,391
Interest costs, covered bond liabilities to parent bank	2,717	5,190
Commission costs to parent bank	19,130	16,121
Administrative costs to parent bank	1,146	877
Other operating costs to parent bank	1,260	1,260

Balance sheet	**2018**	**2017**
Deposits in parent bank	230,973	221,125
Other receivables from parent bank	743	1,218
Loans from parent bank	447,221	283,708
Other liabilities to parent bank	1,727	1,356

NOTE 4 NET INTEREST INCOME

	2018	**2017**
Interest income from lending to and receivables from financial institutions	2,414	1,858
Interest income from lending to and receivables from customers	310,792	276,567
Interest income from certificates and bonds at fair value	2,268	2,122
Interest income	**315,474**	**280,547**
Interest costs on liabilities to financial institutions	11,154	7,391
Interest costs on issued securities	182,993	148,029
Interest costs	**194,147**	**155,420**
Net interest income	**121,327**	**125,127**

NOTE 5 SALARIES AND OTHER REMUNERATION

Sparebanken Øst Boligkreditt AS has no employees, but has entered into an agreement with Sparebanken Øst to lease staff. The general manager has a 40% position, and the compliance controller a 50% position, while accounting, analysis and reporting has a 50% position, at a total cost of NOK 1,260,000 in 2018. The general manager is paid by Sparebanken Øst and had an annual salary of NOK 1,013,357 in 2018.

No contracted employees or board members have severance package agreements, subscription rights, options, or bonus agreements. No employees of Sparebanken Øst are paid remuneration for serving on the Board. The general manager, Board, and close associates do not have any loans in Sparebanken Øst Boligkreditt AS. The company is not obliged to have an occupational pension scheme under the Act on Mandatory Occupational Pensions.

NOTE 6 ADMINISTRATIVE COSTS

	2018	2017
IT costs	1,146	877
Other administrative costs	19	21
Administrative costs	**1,165**	**898**

NOTE 7 OTHER OPERATING COSTS

	2018	2017
Consulting fees to Sparebanken Øst	1,260	1,260
External consultants	1,560	1,293
Fees relating to own bonds	883	858
Other operating costs	320	413
Other operating costs	**4,023**	**3,824**

NOTE 8 REMUNERATION TO AUDITOR

	2018	2017
Audit	194	211
Other certification services*	136	95
Tax and duties advice	0	0
Other services	0	40
Remuneration to auditor	**330**	**346**

* Including investigator fees in relation to Sections 11-14 of the Norwegian Financial Institutions Act: NOK 136,000 in 2018 and NOK 95,000 in 2017.
The amounts are inclusive of VAT.

NOTE 9 LOSSES ON LOANS AND UNUSED CREDIT FACILITIES

Loss costs

	31.12.18	31.12.17
Change in write-downs on groups of loans for the period (IAS 39)	0	0
Change in model-calculated expected loss Step 1	4	0
Change in model-calculated expected loss Step 2	303	0
Change in model-calculated expected loss Step 3	28	0
Increase in existing individual write-downs	0	0
New individual write-downs	0	0
Established losses covered by previous individual write-downs	0	0
Reversals of previous individual write-downs	0	0
Actual losses where no provision for individual write-downs has previously been made	0	0
Recovery of previously identified losses	0	0
Amortisation costs for the period	0	0
Losses on loans and unused credit facilities	**335**	**0**
- Of which losses on unused credit facilities	22	0

Loss

Change in loss provisions	Expected loss Step 1	Expected loss Step 2	Expected loss Step 3*	Total
Total write-downs as at 31.12.17 in accordance with IAS 39				0
Effect of change of rules on transition to IFRS 9				3,711
Opening balance as at 01.01.18	**3,413**	**298**	**0**	**3,711**
Transferred to Step 1	97	-97	0	0
Transferred to Step 2	-37	37	0	0
Transferred to Step 3	-6	0	6	0
Net change	-448	261	10	-177
New losses	1,244	173	13	1,429
Deducted losses	-846	-71	0	-917
Closing balance as at 31.12.18	**3,418**	**600**	**28**	**4,046**
- Of which losses on unused credit facilities	70	0	0	70

* The company has no commitments with individually assessed impairment losses as at 31.12.18

Gross lending

Change in gross lending distributed by step	Expected loss Step 1	Expected loss Step 2	Expected loss Step 3	Total
Opening balance as at 01.01.18	**10,537,672**	**35,129**	**26,210**	**10,599,011**
Transferred to Step 1	10,456	-7,286	-3,170	0
Transferred to Step 2	-38,965	49,478	-10,513	0
Transferred to Step 3	-8,493	0	8,493	0
Net change	-437,154	-1,535	-1,718	-440,406
New lending	6,027,719	27,162	5,890	6,060,770
Deducted lending	-2,690,715	-11,395	-6,152	-2,708,261
Closing balance as at 31.12.18	**13,400,520**	**91,553**	**19,041**	**13,511,114**

NOTE 10 TAXES

	2018	2017
The year's tax costs in the income statement are as follows		
Tax payable on profit for the year	21,238	24,185
Recognised deferred tax	533	-144
Recognised deferred tax due to change in tax rate	-16	14
Total tax for the year	**21,755**	**24,055**
Change in net deferred tax		
Recognised deferred tax in the income statement	-517	-130
Change in deferred tax carried directly to the balance sheet	854	0
Total change in net deferred tax	**337**	**-130**
Reconciliation of tax costs for the year		
Profit before tax	94,658	100,211
Tax at the nominal rate of 23% (24%)	21,771	24,051
Tax effect of permanent differences	0	-3
Tax effect of changed tax rate	-16	7
Tax costs	**21,755**	**24,055**
Tax payable in the balance sheet is as follows		
Tax payable on the profit for the year	21,238	24,185
Tax payable	**21,238**	**24,185**

	Change	Change

Deferred tax liability/deferred tax asset	2018	2017	2018	2017
Temporary differences				
Financial derivatives	111,557	144,372	32,815	651
Securities issued	-110,118	-145,803	-35,685	284
Securities	200	750	550	-360
Loss provisions IFRS 9 01.01.18	-3,711	0	3,711	0
Total temporary differences	-2,072	-681	1,391	575
Deferred tax liability(+)/deferred tax asset(-)	**-493**	**-156**	**337**	**130**

The tax rate for tax payable in 2018 is 23%, compared to 24% in 2017. The deferred tax liability/deferred tax asset as at 31.12.2018 is recognised on the basis of the future tax rate of 22%, compared to 23% in previous years.

NOTE 11 LENDING TO CUSTOMERS

	2018	2017
Credit lines secured against residential property	1,168,452	889,466
Repayment mortgages secured against property	12,342,662	9,709,545
Total gross lending	**13,511,114**	**10,599,011**
Loss provisions on lending	3,976	0
Total net lending	**13,507,138**	**10,599,011**

Geographical distribution of lending to customers	2018	2017
Drammen	1,583,115	1,133,227
Øvre Eiker	620,565	447,523
Nedre Eiker	837,769	596,227
Rest of Buskerud	1,124,587	699,763
Akershus	2,863,487	2,400,184
Oslo	3,187,090	2,534,149
Vestfold	964,845	830,066
Østfold	545,375	438,897
Rest of Norway	1,784,281	1,518,975
Total gross lending	**13,511,114**	**10,599,011**
Loss provisions on lending	3,976	0
Total net lending	**13,507,138**	**10,599,011**

Lending by customer groups	2018	2017
Salaried employees	13,461,508	10,562,924
Self-employed	49,606	36,087
Total gross lending	**13,511,114**	**10,599,011**
Loss provisions on lending	3,976	0
Total net lending	**13,507,138**	**10,599,011**

Non-performing and impaired commitments	2018	2017
Non-performing commitments over 90 days		
Business	0	0
Retail	9,315	2,730
Gross non-performing commitments	**9,315**	**2,730**
Loss provisions	28	0
Net non-performing commitments	**9,287**	**2,730**
Provisions ratio	0.3%	0.0%
Impaired (not non-performing) commitments		

Business	0	0
Retail	0	0
Gross impaired commitments	**0**	**0**
Loss provisions	0	0
Net impaired commitments	**0**	**0**
Provisions ratio	0.0%	0.0%

Gross non-performing and impaired commitments

Business	0	0
Retail	9,315	2,730
Gross non-performing and impaired commitments	**9,315**	**2,730**
Loss provisions	28	0
Net non-performing and impaired commitments	**9,287**	**2,730**
Provisions ratio	0.3%	0.0%

NOTE 12 FINANCIAL DERIVATIVES

Interest-rate and currency derivatives to reduce interest-rate and currency risk have been entered into for the company's debenture loans at fixed interest rates and in foreign currencies. For lending at fixed interest rates, the hedging includes changes in value due to changes in market interest rates. Equivalently, for lending in foreign currencies both the currency and interest rate risk are hedged in the foreign market interest rate. The hedging ratio is 1:1 and hedge accounting is used. Reference is made to Note 21 for the remaining contractual maturity of derivatives for which hedge accounting is used.

Financial derivatives used for hedge accounting 2018

		Fair value of hedging instruments		**Value adjustment of hedging object**
	Contractual totals	**Assets**	**Liabilities**	**Liabilities**
Currency instruments				
Currency swap agreements	304,859	0	14,583	
Securities issued				-14,033
Interest rate instruments				
Interest rate swaps	1,750,000	142,015	0	
Securities issued				121,736
Total derivatives		**142,015**	**14,583**	**107,703**

No significant hedging inefficiencies have been reported in 2018. Differences between the fair value of hedging instruments and the value adjustment of hedging objects are explained by accrued interest. See Note 15

Financial derivatives used for hedge accounting 2017

		Fair value of hedging instruments		**Value adjustment of hedging object**
	Contractual totals	**Assets**	**Liabilities**	**Liabilities**
Currency instruments				
Currency swap agreements	304,859	0	6,111	
Securities issued				-5,642

Interest rate instruments				
Interest rate swaps	1,350,000	169,929	0	
Securities issued				149,127
Total derivatives		**169,929**	**6,111**	**143,485**

No significant hedging inefficiencies have been reported in 2017. Differences between the fair value of hedging instruments and the value adjustment of hedging objects are explained by accrued interest. See Note 15

NOTE 13 OTHER ASSETS

	2018	2017
Outstanding accounts, parent bank	743	1,218
Other assets	**743**	**1,218**

NOTE 14 LIABILITIES TO FINANCIAL INSTITUTIONS

	2018	2017
Loans from financial institutions with an agreed term or notice period	447,221	283,708
Liabilities to financial institutions	**447,221**	**283,708**

NOTE 15 - NET VALUE CHANGE AND GAINS/LOSSES FROM FINANCIAL INSTRUMENTS

	2018	2017
Value change in certificates and bonds - held for trading	-550	360
Value change and gains/losses on financial instruments at fair value through profit or loss	**-550**	**360**
Financial derivatives - hedge accounting	-21,940	-201
Financial liabilities - hedged	21,940	201
Net hedged items*	**0**	**0**
Realised gains/losses on securities issued - amortised cost	-1,485	-4,447
Value change and gains/losses on financial instruments at amortised cost	**-1,485**	**-4,447**
Total value change and gains/losses on financial instruments	**2,035**	**-4,087**

* For hedged financial liabilities, the hedged risk is measured at fair value, while the rest of the instrument is measured at amortised cost. Hedging derivatives are measured at fair value. The company uses hedge accounting for fixed-rate bonds and bond in foreign currency. Borrowing is hedged on a one-to-one basis.

NOTE 16 LONG-TERM BORROWING

Securities issued

(Amounts in NOK 1,000)	31.12.18	31.12.17
Covered bonds, nominal value in NOK	11,758,000	9,381,000
Covered bonds, nominal value in SEK (converted to NOK)	290,827	299,218
Value adjustment (including conversion/exchange rate)	120,952	146,687
Accrued interest	40,901	35,945
Total securities issued	**12,210,680**	**9,862,850**

Change securities issued	31.12.18	Issued	Due/ redeeme d	Other changes incl. currency	31.12.17
Covered bonds, nominal value in NOK	11,758,000	2,900,000	523,000	0	9,381,000
Covered bonds, nominal value in SEK (converted to NOK)	290,827	0	0	-8,391	299,218
Value adjustment (including	120,952	0	0	-25,735	146,687

conversion/exchange rate)					
Accrued interest	40,901	0	0	4,956	35,945
Total securities issued	**12,210,680**	**2,900,000**	**523,000**	**-29,170**	**9,862,850**

2018	Outstanding volume*	Avg. balance	Weighted effective interest rate
Covered bonds NOK	11,878,952	11,162,306	1.58
Covered bonds FCY	290,827	280,622	2.16
Securities issued	**12,169,779**	**11,442,928**	**1.60**

*Measured at amortised cost, value adjusted for hedged risk, excl. accrued interest on the balance sheet date.

2017	Outstanding volume*	Avg. balance	Weighted effective interest rate
Covered bonds NOK	9,527,687	9,354,872	1.52
Covered bonds (FCY)	299,218	289,727	2.01
Securities issued	**9,826,905**	**9,644,599**	**1.53**

*Measured at amortised cost, value adjusted for hedged risk, excl. accrued interest on the balance sheet date.

Long-term borrowing grouped according to maturity

31.12.18	Drawing right*	Covered bonds	Total
2019	0	298,827	298,827
2020	0	2,500,000	2,500,000
2021	0	3,100,000	3,100,000
2022	0	2,500,000	2,500,000
2023	0	2,500,000	2,500,000
2024	0	0	0
2025	0	0	0
2026	0	750,000	750,000
2027 and thereafter	0	400,000	400,000
No term	447,142	0	447,142
Gross borrowing	447,142	12,048,827	12,495,969
Accrued interest	79	40,901	40,980
Direct costs and premium/discount	0	-784	-784
Value adjustments	0	121,736	121,736
Net borrowing	**447,221**	**12,210,680**	**12,657,901**

*Approved overdraft limit of NOK 2,000 million.

31.12.17	Drawing right*	Covered bonds	Total
2018	0	231,000	231,000
2019	0	599,218	599,218
2020	0	2,500,000	2,500,000
2021	0	3,100,000	3,100,000
2022	0	2,500,000	2,500,000
2023	0	0	0
2024	0	0	0
2025	0	0	0
2026 and after	0	750,000	750,000
No term	283,673	0	283,673

Gross borrowing	283,673	9,680,218	9,963,891
Accrued interest	35	35,945	35,980
Direct costs and premium/discount	0	-2,439	-2,439
Value adjustments	0	149,126	149,126
Net borrowing	**283,708**	**9,862,850**	**10,146,558**

*Approved overdraft limit of NOK 2,000 million.

NOTE 17 OTHER LIABILITIES

	2018	2017
Accounts payable	22	167
Accrued management fees	1,727	1,356
Exchanged collateral CSA	73,500	0
Other liabilities	**75,249**	**1,523**

NOTE 18 COVERED BONDS AND PROVISION OF COLLATERAL

	2018	2017
Preferential rights pursuant to Section 11-15 of the Financial Institutions Act	**12,210,680**	**9,862,850**

Cover pool	**2018**	**2017**
Qualified lending secured against property*	13,481,443	10,585,373
Financial derivatives (net)	53,932	163,818
Other substitute assets (bank deposits)	230,973	322,075
Total cover pool	**13,766,348**	**11,071,266**
Cover pool utilisation	113%	112%

* NOK 30.0 million of gross lending in the company does not qualify for the cover pool.

NOTE 19 CAPITAL ADEQUACY

	2018	2017
CET1 capital		
Book equity	1,262,909	964,264
Deduction items in CET1 capital		
Additional value adjustments (prudent valuation requirement) (AVA)	-307	-306
Total CET1 capital	**1,262,602**	**963,958**
Other tier 1 capital	0	0
Total tier 1 capital	**1,262,602**	**963,958**
Net primary capital	**1,262,602**	**963,958**

Calculation basis		
Calculation basis for credit and counterparty risk	5,135,690	4,076,003
Calculation basis for currency risk	0	0
Calculation basis for operational risk	193,699	205,607
Calculation basis for impaired counterparty credit valuation adjustment (CVA)	161,341	166,882
Deductions from calculation basis	0	0
Total calculation basis	**5,490,730**	**4,448,491**
CET1 capital ratio	**23,00%**	**21.67%**
Tier 1 capital ratio	**23,00%**	**21.67%**
Capital adequacy	**23,00%**	**21.67%**
Buffers		
Capital conservation buffer	137,268	111,212
Countercyclical buffer	109,815	88,970
Systemic risk buffer	164,722	133,455
Total buffer requirements	**411,805**	**333,637**
Available buffer capital	**823,343**	**608,079**
Tier 1 leverage ratio*	**8,81%**	**8.40%**

*The tier 1 leverage ratio is calculated as at the end of the year.

Sparebanken Øst Boligkreditt AS uses the standard approach for calculating minimum equity and primary capital requirements for credit risk. The calculation related to operational risk is calculated based on the basic approach. The capital charge for credit value adjustment (CVA) is calculated using the standardised approach. Commitment amounts for derivatives are calculated using the market value approach.

The credit institution's primary capital shall comply with minimum capital adequacy requirements at all times, with the addition of a buffer equivalent to the company's accepted risk tolerance.

See also the Group's Pillar III document, which is available from Sparebanken Øst's website.

NOTE 20 FINANCIAL INSTRUMENTS

Sparebanken Øst Boligkreditt AS' financial instruments in this category at fair value consist of derivatives and a liquidity portfolio of bonds. Other instruments are measured at amortised cost.

Valuation of financial instruments at fair value

General information
Sparebanken Øst Boligkreditt AS uses the following valuation hierarchy to determine the fair value of financial instruments:

Level 1: Observable market prices.
Level 2: Observable market prices in less active markets, or the use of inputs which are either directly or indirectly observable.
Level 3: Valuation techniques not based on observable market data.

Net loans
The company has only lent at variable interest rates. The fair value of loans at variable interest rates is subject to the influence of changing interest rate levels and credit margins, but can be re-priced on an ongoing basis in the short term. The Norwegian Act on Financial Contracts and Financial Assignments permits re-pricing with six weeks' notice (less in case of major changes to the company's borrowing rate). Sparebanken Øst Boligkreditt AS' assessment of the best estimates for the lending portfolio is that amortised cost, with consideration of loss provisions, gives a good approximation of fair value.

Certificates and bonds
The company's holdings of securities and bonds are placed in level 2 of the pricing hierarchy because the turnover is not large enough in any of the listed instruments to be able to read off a market price at any given time. The company uses price estimates and credit spread assessments from Nordic Bond Pricing and has taken transaction prices into account where these are available.

Derivatives

Sparebanken Øst Boligkreditt AS does not use derivatives that are traded in an active market. The derivatives' fair values are based on observable yield curves and exchange rates. All of the company's derivatives are invested at level 2 of the pricing hierarchy.

Securities issued
The company's securities issued are placed in level 2 of the pricing hierarchy because the turnover is not large enough in any of the loans to be able to read off a market price at any given time. The company uses price estimates and credit spread assessments from Nordic Bond Pricing and has taken transaction prices into account where these are available.

31.12.18	Level 1	Level 2	Level 3	Fair value	Book value
Financial assets and liabilities measured at amortised cost					
Net loans to and receivables from financial institutions	0	230,973	0	230,973	230,973
Net loans to and receivables from customers	0	0	13,507,138	13,507,138	13,507,138
Total assets at amortised cost	**0**	**230,973**	**13,507,138**	**13,738,111**	**13,738,111**
Liabilities to financial institutions	0	447,221	0	447,221	447,221
Securities issued	0	12,288,959	0	12,288,959	12,210,680
Total liabilities at amortised cost	**0**	**12,736,180**	**0**	**12,736,180**	**12,657,901**
Financial assets and liabilities measured at fair value					
Certificates and bonds	0	150,713	0	150,713	150,713
Financial derivatives	0	142,015	0	142,015	142,015
Total assets at fair value	**0**	**292,728**	**0**	**292,728**	**292,728**
Financial derivatives	0	14,583	0	14,583	14,583
Total liabilities at fair value	**0**	**14,583**	**0**	**14,583**	**14,583**

31.12.17	Level 1	Level 2	Level 3	Fair value	Recognised value
Financial assets and liabilities measured at amortised cost					
Net loans to and receivables from financial institutions	0	221,125	0	221,125	221,125
Net loans to and receivables from customers	0	0	10,599,011	10,599,011	10,599,011
Total assets at amortised cost	**0**	**221,125**	**10,599,011**	**10,820,136**	**10,820,136**
Liabilities to financial institutions	0	283,708	0	283,708	283,708
Securities issued	0	9,952,716	0	9,952,716	9,862,850
Total liabilities at amortised cost	**0**	**10,236,424**	**0**	**10,236,424**	**10,146,558**
Financial assets and liabilities measured at fair value					
Certificates and bonds	0	151,223	0	151,223	151,223
Financial derivatives	0	169,929	0	169,929	169,929
Total assets at fair value	**0**	**321,152**	**0**	**321,152**	**321,152**
Financial derivatives	0	6,111	0	6,111	6,111
Total liabilities at fair value	**0**	**6,111**	**0**	**6,111**	**6,111**

NOTE 21 RISK AND RISK MANAGEMENT

Sparebanken Øst Boligkreditt AS seeks to maintain a low risk profile to ensure that the company's issued securities are attractive to external investors. The company's Board has adopted a strategy for financial risk, which sets out the company's policy and framework for risk-taking in the different risk areas. The company's Board revises the strategy at least annually.

The use of a framework as set out in the strategy is measured at least quarterly and reported to the Board. Sparebanken Øst Boligkreditt AS and the rest of the Group are measured and assessed as part of annual capital adequacy requirement evaluations (ICAAP). Monthly accounts reports are prepared on a monthly basis for the Board, the general manager, and the bank's management.

Reports from the external auditor and internal audit function are presented to and considered by the Board. The general manager makes an annual report regarding the overall assessment of the risk situation and internal controls. The risk management and compliance department submits regular risk control reports to the general manager and presents a six-monthly status report to the Board.

Sparebanken Øst Boligkreditt AS is exposed to the following risks:

- operational risk associated with the business's internal operating structure
- commercial risk associated with exposure to external parties and general market conditions

Operational risk

Operational risk is the risk of losses resulting from inadequate or failing internal processes, the failure of people and systems, or external events.

Operational risk in Sparebanken Øst Boligkreditt AS arises primarily in relation to the approval of loans, the use of IT systems, the issue of covered bond debt, and compliance with laws and regulations. The approval of loans takes place at Sparebanken Øst in accordance with an agreement between the companies. The credit process is subject to strict routines and the associated control procedures. IT systems are subject to the same control procedures that apply to Sparebanken Øst with operations and maintenance carried out by the bank in accordance with an agreement between the companies. The same applies to the issue of covered bond debt/liquidity management carried out by the bank as agreed. Compliance control is carried out by Sparebanken Øst Boligkreditt AS itself. An investigator (Ernst & Young AS) carries out independent quarterly checks. KPMG performs internal auditing for Sparebanken Øst Boligkreditt AS.

Commercial risks

The most significant commercial risks in Sparebanken Øst Boligkreditt AS include:

- Credit risk
- Market risk

<u>Credit risk</u>

Credit risk is the potential for losses as a result of customers and other counterparties failing to honour their commitments at the agreed time, and any security pledged for the relationship failing to cover the outstanding account. Concentration risk on geographic areas and individual customers is also included here.

Loans transferred to or provided by Sparebanken Øst Boligkreditt AS are approved against real estate (residential mortgage) up to 75% of the property's market value. The loans are granted in accordance with conservative credit approval procedures so as to minimise the risk of losses. The credit policy of lending to customers is addressed daily through credit manuals, frameworks, and powers of attorney handled by the bank's credit department. The development in credit risk related to the bank's lending is monitored on an ongoing basis with framework control, periodic analyses and reports, and the use of random sampling at customer level. The loan-to-value ratio in the cover pool (LTV) was 46.6% at the end of 2018, compared to 43.9% at the end of 2017.

The bank's branch network in the eastern part of southern Norway and a focus on internet concepts such as DinBank.no and Boligkreditt.no help to reduce geographical concentration. There are limits to the size of loans to individual customers. Sparebanken Øst Boligkreditt AS is the legal and beneficial owner of all loans in the cover pool, and shall have seniority if the same collateral secures loans in both the parent bank and the company.

Maximum credit exposure in excess of capitalised amount	**2018**	**2017**
Liabilities		
Loan pledges	124,711	6,111
Overdraft facilities	717,050	613,345
Total liabilities	**841,761**	**619,456**

Risk classification is an integral element of the credit process for retail customers for the approval and overall management of the portfolio. Retail customers are classified in line with the applicable rules described in

Sparebanken Øst's credit handbook PM. The method of classifying customers by risk follows the attached description: The cumulative risk class is calculated on the basis of the ratio between total liabilities and total wage income (debt ratio), the customer's/household's general financial capacity to service their total debt with a mark-up of 5% over the current interest rate level (liquidity indicator), and the household's credit score and payment history. The above factors are weighted based on the following distribution: Debt ratio (15%), liquidity indicator (35%), credit score (25%) and payment history (25%).

Sparebanken Øst Boligkreditt AS' portfolio is based on credit ratings made by Sparebanken Øst and is subject to its organisation of the decision-making process. The decision-making process in the retail market is based on a centralised processing unit. The control measures implemented in the bank show that there is limited operational risk within this area. It is believed, therefore, that losses will primarily be linked to, and conditional upon, general future developments in the market.

The portfolio of Sparebanken Øst Boligkreditt AS is based on a risk classification comprising11 categories from A to K. Risk class A represents the lowest risk and risk class K represents the highest. In Sparebanken Øst Boligkreditt AS, risk classes J and K consist of commitments for which objective evidence of a default/loss exists and the commitments are subject to special monitoring.

Retail customers' risk is classified when new loan applications are assessed or due to a reclassification based on servicing history.

Lending by risk classes 2018

	Gross lending	**Overdraft facilities**	**Commit-ments**	**%**	**Commitments Step 1**	**Commitments Step 2**	**Commitments Step 3**
A	6,411,591	584,140	6.995.731	49	6,994,641	1,090	0
B	2,771,623	52,396	2,824,019	20	2,820,048	3,971	0
C	2,131,555	45,315	2,176,870	15	2,164,827	12,043	0
D	1,755,118	33,676	1,788,794	13	1,776,561	12,233	0
E	193,214	967	194,181	1	180,493	13,688	0
F	138,337	553	138,890	1	110,047	28,843	0
G	66,647	0	66,647	1	56,386	10,261	0
H	11,691	0	11,691	0	5,295	6,396	0
I	12,355	3	12,358	0	9,548	2,810	0
J	18,983	0	18,983	0	0	0	18,983
K	0	0	0	0	0	0	0
U	0	0	0	0	0	0	0
Total	**13,511,114**	**717,050**	**14,228,164**	**100**	**14,117,846**	**91,335**	**18,983**
Loss provisions			**4,046**		**3,418**	**600**	**28**

Lending by risk classes 2017

	Gross loans	**Overdraft facilities**	**Individual write-downs**	**Commitments**	**%**
A	4,826,090	505,891	0	5,331,981	47
B	2,057,180	39,596	0	2,096,776	19
C	1,717,574	38,454	0	1,756,028	16
D	1,411,664	21,793	0	1,433,457	13
E	278,886	6,291	0	285,177	3
F	138,427	241	0	138,668	1
G	89,631	1,079	0	90,710	1
H	37,248	0	0	37,248	0
I	15,732	0	0	15,732	0
J	26,209	0	0	26,209	0
K	0	0	0	0	0
U	370	0	0	370	0
Total	**10,599,011**	**613,345**	**0**	**11,212,356**	**100**

The pricing of loans to retail customers is primarily based on security coverage (loan-to-value ratio) and the size of the loan. Pricing throughout the year will still be influenced by developments in the general interest rate market, the parent bank's overall growth objectives, and the overall competitive situation.

The main parameter in relation to the credit rating is the borrower's financial situation and loan-to-value ratio. Loans at Sparebanken Øst Boligkreditt AS are secured against real estate, properties on leased land, or housing society dwellings within the statutory limits for loan-to-value ratios. The loan-to-value ratio is calculated on the basis of the loan amount in relation to the carefully assessed value of the collateral. For loans transferred to Sparebanken Øst Boligkreditt AS, the basis for determining the value is also ensured by a valuation undertaken by an approved independent third party.

Market risk

Market risk is the risk of losses in the market value of financial assets and liabilities in the event of a change in financial market prices. Sparebanken Øst is primarily exposed to market risk through changes in the level of interest rates.

Interest rate risk

Interest rate risk arises when repricing interest rates for assets differs from the point of repricing for liabilities. Interest rate risk is measured as the effect on net interest income and equity at changes in the yield curve. The interest rate risk at Sparebanken Øst Boligkreditt AS is limited.

Interest rate sensitivity

Currency	Increase in base points	Sensitivity on earnings 2018	Sensitivity on earnings 2017	Sensitivity on equity 2018	Sensitivity on equity 2017
NOK	+100	16,709	12,318	0	0
SEK	+100	-2,424	-2,494	0	0
Total		**14,285**	**9,824**	**0**	**0**

Currency	Reduction in base points	Sensitivity on earnings 2018	Sensitivity on earnings 2017	Sensitivity on equity 2018	Sensitivity on equity 2017
NOK	-100	-16,709	-12,318	0	0
SEK	-100	2,424	2,494	0	0
Total		**-14,285**	**-9,824**	**0**	**0**

Time until expected interest rate change as at 31.12.18

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No fixed-rate period	Total
Assets							
Net lending to financial institutions	230,777					196	230,973
Net lending to customers	49,528	13,443,993					13,493,521
Certificates and bonds		150,580					150,580
Financial derivatives						121,736	121,736
Accrued interest, not yet due						34,029	34,029
Other asset items						743	743
Total	**280,305**	**13,594,573**	**0**	**0**	**0**	**156,704**	**14,031,582**
Liabilities							
Liabilities to financial institutions	447,142						447,142
Securities issued NOK	3,283,432	8,595,521					11,878,953
Securities issued FCY		290,826					290,826
Financial derivatives (FCY)						14,033	14,033

Accrued interest NOK						40,875	40,875
Accrued interest (FCY)						655	655
Other liabilities						73,500	73,500
Total	**3,730,574**	**8,886,347**	**0**	**0**	**0**	**129,063**	**12,745,984**
Net exposure	**-3,450,269**	**4,708,226**	**0**	**0**	**0**	**27,641**	

Time until expected rate change as at 31.12.2017

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No fixed-rate period	Total
Assets							
Net lending to financial institutions	220,997					128	221,125
Net lending to customers	36,044	10,551,849					10,587,893
Certificates and bonds		151,130					151,130
Financial derivatives						149,127	149,127
Accrued interest, not yet due						32,013	32,013
Other asset items						1,218	1,218
Total	**257,041**	**10,702,979**	**0**	**0**	**0**	**182,486**	**11,142,506**
Liabilities							
Liabilities to financial institutions	283,673						283,673
Securities issued NOK	3,300,819	6,226,868					9,527,687
Securities issued FCY		299,218					299,218
Financial derivatives (FCY)						5,642	5,642
Accrued interest NOK						35,930	35,930
Accrued interest (FCY)						519	519
Total	**3,584,492**	**6,526,086**	**0**	**0**	**0**	**42,091**	**10,152,669**
Net exposure	**-3,327,451**	**4,176,893**	**0**	**0**	**0**	**140,395**	

Liquidity risk
Liquidity risk is the risk of the company failing to meet its debt obligations or other receivables obligations when due for payment, or having to pay a significantly higher price. Cash flows from lending in the cover pool shall always exceed payment obligations to holders of covered bonds and derivative counterparties.

Sparebanken Øst Boligkreditt AS covers its borrowing needs from two sources; the company can issue covered bonds and/or draw on a credit facility in Sparebanken Øst. Loans included in the cover pool and serving as over-collateralisation are financed by a credit facility. If funding is urgently required upon the maturing of previously issued covered bonds, new covered bonds can be issued and parts of the bond can be provided as collateral for D and/or F bonds in Norges Bank via Sparebanken Øst. All of the covered bond agreements entered into by the company have a “soft bullet” whereby the mortgage credit company can defer redemption by one year.

Remaining contractual term as at 31.12.18

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Assets							
Net lending to financial institutions						230,973	230,973
Net lending to customers	883	174	2,883	1,276,517	12,213,064		13,493,521
Certificates and bonds			100,000	50,000			150,000
Financial derivatives – hedge accounting, interest rate swaps				14,426	107,310		121,736
Accrued interest, not yet due	18,477	15,552					34,029
Other asset items						743	743
Total receipts	**19,360**	**15,726**	**102,883**	**1,340,943**	**12,320,374**	**231,716**	**14,031,002**
Liabilities							
Liabilities to financial institutions			447,142				447,142
Securities issued NOK			8,000	10,600,000	1,150,000		11,758,000

Securities issued FCY		290,826					290,826
Financial derivatives – hedge accounting, basis swaps, FCY			14,033				14,033
Accrued interest NOK	17,431	23,993					41,424
Accrued interest FCY		106					106
Other liabilities			96,682				96,682
Total payments	**17,431**	**314,925**	**565,857**	**10,600,000**	**1,150,000**	**0**	**12,648,213**
Net exposure	**1,929**	**-299,199**	**-462,974**	**-9,259,057**	**11,170,374**	**231,716**	

Remaining contractual term as at 31.12.2017

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Assets							
Net lending to financial institutions						221,125	221,125
Net lending to customers	12	143	2,012	985,570	9,600,156		10,587,893
Certificates and bonds				100,000	50,000		150,000
Financial derivatives – hedge accounting, interest rate swaps				26,153	122,974		149,127
Accrued interest, not yet due	16,464	15,505	44				32,013
Other asset items						1,218	1,218
Total receipts	**16,476**	**15,648**	**2,056**	**1,111,723**	**9,773,130**	**222,343**	**11,141,376**
Liabilities							
Liabilities to financial institutions			283,673				283,673
Securities issued NOK		231,000		8,400,000	750,000		9,381,000
Securities issued FCY				299,218			299,218
Financial derivatives – hedge accounting, basis swaps, FCY				5,642			5,642
Accrued interest NOK	15,602	20,293	35				35,930
Accrued interest (FCY)		519					519
Other liabilities			25,708				25,708
Total payments	**15,602**	**251,812**	**309,416**	**8,704,860**	**750,000**	**0**	**10,031,690**
Net exposure	**874**	**-236,164**	**-307,360**	**-7,593,137**	**9,023,130**	**222,343**	

Financial liabilities
The mortgage company's financial liabilities are shown below at nominal value. All liabilities are added to the category for first possible payment when a contractual payment date is provided. The liabilities are inclusive of future interest payments and the principal of the liability that is stated. Interest rates and currency rates are as at 31.12.18. Liabilities associated with derivatives are shown on a separate line, and related inflows from derivatives are shown under each table.

Maturity analysis for financial liabilities as at 31.12.18

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Liabilities to financial institutions			455,336				455,336
Securities issued	23,529	311,904	193,053	11,262,256	1,330,215		13,120,957
Other liabilities			96,682				96,682
Unused credit	717,050						717,050
Financial liabilities excluding derivatives	**740,579**	**311,904**	**745,071**	**11,262,256**	**1,330,215**	**0**	**14,390,025**

Financial derivatives (outflows)	3,610	2,519	23,357	97,865	92,262	0	219,613
Financial liabilities	**744,189**	**314,423**	**768,428**	**11,360,121**	**1,422,477**	**0**	**14,609,638**
Financial derivatives (inflows)	0	18,567	45,245	217,580	180,215	0	461,607

Maturity analysis for financial liabilities as at 31.12.2017

	Up to 1 month	From 1-3 months	3 months to 1 year	From 1-5 years	Over 5 years	No term	Total
Liabilities to financial institutions			287,338				287,338
Securities issued	7,539	268,510	117,232	9,264,116	886,500		10,543,897
Other liabilities			25,708				25,708
Unused credit	613,345						613,345
Financial liabilities excluding derivatives	**620,884**	**268,510**	**430,278**	**9,264,116**	**886,500**	**0**	**11,470,288**
Financial derivatives (outflows)	2,996	446	10,328	62,746	47,942		124,458
Financial liabilities	**623,880**	**268,956**	**440,606**	**9,326,862**	**934,442**	**0**	**11,594,746**
Financial derivatives (inflows)	0	18,429	34,512	191,529	136,500	0	380,970

Currency risk

Currency risk is the risk of a loss of value due to a change in the market rate of a foreign currency. Such risk is reduced by matching asset and liability positions with each other on the balance sheet or by using currency derivatives.

The company had no open currency risk as at 31.12.2018 or 31.12.2017.

Covered bond issues - nominal value by currency	**2018**	**2017**
Covered bonds in NOK	11,758,000	9,381,000
Covered bonds in SEK	290,827	299,218
Total covered bond issues	**12,048,827**	**9,680,218**

NOTE 22 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

31.12.18	Financial derivatives at fair value, used as hedging instruments	Measured at fair value	Measured at amortised cost	Total
Net loans to and receivables from financial institutions	0	0	230,973	230,973
Net loans to and receivables from customers	0	0	13,507,138	13,507,138
Certificates and bonds	0	150,713	0	150,713
Financial derivatives	142,015	0	0	142,015

Total financial assets	**142,015**	**150,713**	**13,738,111**	**14,030,839**
Liabilities to financial institutions	0	0	447,221	447,221
Securities issued	0	0	12,210,680	12,210,680
Financial derivatives	14,583	0	0	14,583
Total financial liabilities	**14,583**	**0**	**12,657,901**	**12,672,484**

31.12.17	**Financial derivatives at fair value, used as hedging instruments**	**Measured at fair value**	**Measured at amortised cost**	**Total**
Net loans to and receivables from financial institutions	0	0	221,125	221,125
Net loans to and receivables from customers	0	0	10,599,011	10,599,011
Certificates and bonds	0	151,223	0	151,223
Financial derivatives	169,929	0	0	169,929
Total financial assets	**169,929**	**151,223**	**10,820,136**	**11,141,288**
Liabilities to financial institutions	0	0	283,708	283,708
Securities issued	0	0	9,862,850	9,862,850
Financial derivatives	6,111	0	0	6,111
Total financial liabilities	**6,111**	**0**	**10,146,558**	**10,152,669**

NOTE 23 OWNERSHIP STRUCTURE

The share capital of Sparebanken Øst Boligkreditt AS amounts to NOK 373.1 million divided into 10.66 million shares each with a nominal value of NOK 35. All shares in Sparebanken Øst Boligkreditt AS are owned by Sparebanken Øst.

NOTE 24 UNCERTAINTIES AND EVENTS AFTER THE BALANCE SHEET DATE

Sparebanken Øst Boligkreditt AS is not a party in any legal disputes.

NOTE 25 OPERATING SEGMENTS

Sparebanken Øst Boligkreditt AS operates in only one customer-facing segment. This is also how the management have organised the company for operational and management purposes.

Through Boligkreditt.no, Sparebanken Øst Boligkreditt AS only offers residential mortgages up to 75% of a reasonable valuation. Information regarding the geographic distribution of the lending portfolio is provided in note 11. No customer may be deemed more important to the company than others based on size and similar. The company is not dependent on individual customers. No single customer accounts for more than 10%.

NOTE 26 NETTING RIGHT, FINANCIAL DERIVATIVES

Sparebanken Øst Boligkreditt AS' netting is in accordance with general rules set out in Norwegian legislation.

Sparebanken Øst Boligkreditt AS has entered into standardised and mainly bilateral ISDA agreements with financial institutions entitling the parties to netting in the event of any defaults. Additional agreements have also been entered into concerning provision of security (CSA) for the same counterparts.

As at 31.12.18 the exposure was as follows:	**Gross**	**Set off in the**	**Book value**	**Amount subject to net settlement**	**Exchanged collateral security**	**Amount following any net settlement**

	amount	balance sheet				
Financial derivatives, assets	142,015	0	142,015	14,583	-73,500	53,932
Financial derivatives, liabilities	14,583	0	14,583	14,583		0

As at 31.12.17 the exposure was as follows:	**Gross amount**	**Set off in the balance sheet**	**Book value**	**Amount subject to net settlement**	**Exchanged collateral security**	**Amount following any net settlement**
Financial derivatives, assets	169,929	0	169,929	-6,111	0	163,818
Financial derivatives, liabilities	6,111	0	6,111	-6,111		0

NOTE 27 QUARTERLY DEVELOPMENT

Profit performance

(Amounts in NOK 1,000)	**Q4 18**	**Q3 18**	**Q2 18**	**Q1 18**	**Q4 17**
Interest income	83,229	80,053	76,584	75,608	68,659

Interest costs	53,105	50,252	49,267	41,523	35,782
Net interest income	**30,124**	**29,801**	**27,317**	**34,085**	**32,877**
Commission income and income from banking services	5	5	5	4	4
Commission costs and costs from banking services	4,969	4,937	4,669	4,555	4,021
Net value change and gains/losses on financial instruments	-344	-235	-120	-1,336	-35
Administrative costs	396	250	411	108	569
Other operating costs	658	1,038	900	1,427	617
PROFIT BEFORE LOSSES	**23,762**	**23,346**	**21,222**	**26,663**	**27,639**
Losses on loans and guarantees, etc.	632	-408	-90	201	0
PROFIT BEFORE TAX COSTS	**23,130**	**23,754**	**21,312**	**26,462**	**27,639**
Tax costs (calculated for interim financial statements)	5,304	5,463	4,902	6,086	5,912
PROFIT/LOSS FOR THE PERIOD	**17,826**	**18,291**	**16,410**	**20,376**	**21,727**
Earnings per share	1.67	1.72	1.54	1.91	2.03
Diluted earnings per share	1.67	1.72	1.54	1.91	2.03

Balance sheet performance

(Amounts in NOK 1,000)	**31.12.18**	**30.09.18**	**30.06.18**	**31.03.18**	**31.12.17**
Loans to and receivables from financial institutions	230,973	258,088	235,059	226,374	221,125
Loans to and receivables from customers	13,507,138	13,024,179	12,748,153	12,431,471	10,599,011
Certificates, bonds, etc. at fair value	150,713	150,882	151,107	151,229	151,223
Deferred tax asset	493	1,010	1,010	1,010	156
Financial derivatives	142,015	145,838	145,807	130,008	169,929
Other assets	743	30,164	12,345	5,874	1,218
Prepaid non-accrued costs and income earned, but not received	0	75	512	0	0
TOTAL ASSETS	**14,032,075**	**13,610,236**	**13,293,993**	**12,945,966**	**11,142,662**
Liabilities to financial institutions	447,221	705,967	412,485	592,520	283,708
Securities issued	12,210,680	11,839,316	11,837,970	11,325,883	9,862,850
Financial derivatives	14,583	29,839	32,401	23,882	6,111
Other liabilities	96,487	18,038	12,600	21,407	25,708
Accrued expenses and income earned, but not received	125	541	290	438	21
Provisions for accrued costs and obligations	70	52	55	54	0
Total liabilities	**12,769,166**	**12,593,753**	**12,295,801**	**11,964,184**	**10,178,398**
Paid-up equity	949,990	649,990	649,990	649,990	649,990
Retained earnings	312,919	311,416	311,416	311,416	314,274
Retained earnings	0	55,077	36,786	20,376	0
Total equity	**1,262,909**	**1,016,483**	**998,192**	**981,782**	**964,264**
TOTAL LIABILITIES AND EQUITY	**14,032,075**	**13,610,236**	**13,293,993**	**12,945,966**	**11,142,662**

Statement according to the Norwegian Securities Trading Act, Section 5-5

We certify that the annual accounts for the period 1 January to 31 December 2018, to best of our knowledge, have been prepared in accordance with IFRS and that the accounts give a true and fair view of the company's assets, liabilities, financial position, and results as a whole, and that the information in the annual report provides a true and fair view of the development, performance and position of the company, together with a description of the principal risks and uncertainties faced by the company.

Drammen, 12 February 2019

Board of Directors of Sparebanken Øst Boligkreditt AS

Kjell Engen
Chairman of the Board

Lars-Runar Groven
Deputy Chairman

Leif Ove Sørby
Board member

Siren Coward
Board member

Anne Grete Nesset
Board member

Vegard Kvamme
General manager

Auditor’s Report